

Consolidated Financial Statements for the Second Quarter of the Fiscal Year Ending March 31, 2018 (Japanese accounting standards)

October 31, 2017

Corporate Name : H2O Retailing Corporation
 Securities Code : 8242 (First Section of the Tokyo Stock Exchange)
 URL : <http://www.h2o-retailing.co.jp/>
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 Scheduled date of filing of the quarterly financial report : November 13, 2017
 Scheduled date of dividend payment : November 30, 2017
 Preparation of supplementary materials : Yes
 Briefing session on quarterly financial results : Yes (for institutional investors and analysts)

(Figures are rounded down to the nearest million yen.)

1. Consolidated Business Results for the Second Quarter of the Fiscal Year ending March 31, 2018 (From April 1, 2017 to September 30, 2017)

(1) Consolidated operating results (Cumulative total) (Percentages indicate year-on-year changes.)

	Net Sales		Operating Income		Recurring Income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
2Q of FY2018	432,000	(0.4)	6,978	5.4	8,393	63.9	5,739	(12.4)
2Q of FY2017	433,539	(1.8)	6,623	(12.3)	5,121	(33.7)	6,552	3.6

Note : Comprehensive income(loss) 2Q of FY2018 19,168 million yen (174.9%), 2Q of FY2017 6,972 million yen (—%)

	Net Income per Share		Net Income per Share (Diluted)	
	Yen	Yen	Yen	Yen
2Q of FY2018	46.49		46.24	
2Q of FY2017	53.09		52.83	

(2) Consolidated financial position

	Total Assets	Net Assets	Owner's Equity Ratio
	Millions of yen	Millions of yen	%
2Q of FY2018	654,112	280,888	42.8
FY2017	640,543	264,323	41.1

Reference : Owner's equity 2Q of FY2018 276,794 million yen, FY2017 263,220million yen

2. Dividends

	Annual Dividends				
	First Quarter	Second Quarter	Third Quarter	Fiscal Year-End	Total
	Yen	Yen	Yen	Yen	Yen
FY2017	—	20.00	—	20.00	40.00
FY2018	—	20.00			
FY2018(Forecast)			—	20.00	40.00

Note : Revision to recently disclosed dividend forecast : No

3. Forecast of Consolidated Business Results for the Fiscal Year ending March 31, 2018 (From April 1, 2017 to March 31, 2018)

(Percentages indicate year-on-year changes.)

	Net Sales		Operating Income		Recurring Income		Profit attributable to owners of parent		Net Income per Share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full Year	915,000	1.5	22,700	0.7	23,100	6.3	14,500	1.4	117.44

Note : Revision to recently disclosed consolidated business results forecast : Yes

These financial statements have been prepared for reference only in accordance with accounting principles and practices generally accepted in Japan.

Notes

- (1) Changes in significant subsidiaries during the period
(changes in specified subsidiaries resulting in the change in scope of consolidation) : No
- (2) Adoption of special accounting methods for preparing quarterly consolidated financial statements : No
- (3) Changes in accounting policies, changes in accounting estimates or restatements
 - (a) Changes in accounting policies due to changes in consolidated accounting standards : No
 - (b) Changes other than (a) : Yes
 - (c) Changes in accounting estimates : No
 - (d) Restatements due to correction : No
- (4) Number of shares issued and outstanding (common stock)
 - (a) Number of shares issued at the end of the period (including treasury stock)

2Q of FY2018	125,201,396 shares
FY2017	125,201,396 shares
 - (b) Number of shares of treasury stock at the end of the period

2Q of FY2018	1,731,268 shares
FY2017	1,737,627 shares
 - (c) Average number of shares during the period

2Q of FY2018	123,468,202 shares
2Q of FY2017	123,407,211 shares

Note : Disclosure of progress of quarterly review procedures

At the time of disclosure of this quarterly financial statements, review procedures for quarterly financial reports based on the Financial Instruments and Exchange Act had not been completed.

Note : Explanation regarding appropriate use of forecast

The above-mentioned forecast is based on the information available to the company at present, and including a potential risk and uncertainty. Actual achievements may differ from these forecasts due to many factors.

Consolidated Financial Statements**(1) Consolidated Balance Sheets**

(Millions of yen)

	FY2017 (as of March 31, 2017)	2Q of FY2018 (as of September, 30, 2017)
Assets		
Current assets		
Cash on hand and in banks	83,481	78,282
Notes and accounts receivable-trade	43,588	41,218
Merchandise goods and finished goods	33,531	32,274
Work in progress	174	265
Raw materials and supplies	1,587	1,277
Deferred tax assets	4,146	5,676
Notes and accounts receivable -others	5,063	4,113
Other	7,172	6,298
Allowance for doubtful receivables	(428)	(443)
Total current assets	178,318	168,964
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	108,262	108,382
Machinery and equipment, net	3,745	3,975
Land	134,591	133,962
Construction in progress	2,012	6,251
Others, net	10,348	10,453
Total property, plant and equipment	258,961	263,024
Intangible assets		
Goodwill	5,217	4,932
Other	12,326	12,197
Total intangible assets	17,543	17,129
Investments and other assets		
Investment securities	103,031	122,981
Long-term loans receivable	3,868	3,897
Long-term leasehold deposits	69,060	68,297
Net defined benefit asset	683	2,070
Long-term deferred tax assets	9,960	8,622
Other	2,067	2,060
Allowance for doubtful receivables	(2,952)	(2,937)
Total investments and other assets	185,720	204,993
Total noncurrent assets	462,225	485,147
Total Assets	640,543	654,112

(Millions of yen)

	FY2017 (as of March 31, 2017)	2Q of FY2018 (as of September, 30, 2017)
Liabilities		
Current Liabilities		
Notes and accounts payable-trade	59,394	54,873
Current portion of bonds	6,600	6,550
Commercial papers	2,000	-
Current portion of long-term debt	29,585	32,161
Accounts payable-other	14,329	16,991
Lease obligations	675	654
Income taxes payable	4,744	3,099
Deferred tax liabilities	4	0
Gift certificates	23,846	24,452
Provision for bonuses to employees	4,885	4,883
Provision for bonuses to directors and corporate auditors	177	107
Provision for loss on store closing	441	186
Provision for point card certificates	1,750	2,047
Asset retirement obligations	1,089	571
Other	39,676	39,823
Total current liabilities	189,202	186,400
Long-term Liabilities		
Bonds	10,000	10,000
Long-term debt	108,593	101,292
Deferred tax liabilities	21,521	29,111
Deferred tax liabilities related to land revaluation	265	266
Provision for retirement benefits to directors and corporate auditors	245	206
Provision for redemption of gift certificates	3,558	3,597
Net defined benefit liability	18,209	17,662
Long-term payable accrued	526	752
Lease obligations	7,706	7,979
Guarantee deposits	11,494	10,735
Asset retirement obligations	2,567	2,702
Other	2,328	2,516
Total long-term liabilities	187,017	186,823
Total Liabilities	376,219	373,223
Net Assets		
Shareholders' Equity		
Common stock	17,796	17,796
Capital surplus	92,732	92,726
Retained earnings	125,490	128,630
Treasury stock	(3,234)	(3,222)
Total shareholders' equity	232,786	235,931
Accumulated Other Comprehensive Income		
Net unrealised holding gains on securities	31,227	45,235
Deferred gains or losses on hedges	21	39
Land revaluation, net of tax	125	124
Foreign currency translation adjustments	(309)	(463)
Remeasurements of defined benefit plans	(629)	(1,073)
Total accumulated other comprehensive income	30,434	43,863
Subscription Rights to Shares	1,098	1,089
Non-controlling interests	3	3
Total Net Assets	264,323	280,888
Total Liabilities and Net Assets	640,543	654,112

(2) Consolidated Statements of Income (Second Quarter)

(Millions of yen)

	2Q of FY2017 (From April 1, 2016 to September 30, 2016)	2Q of FY2018 (From April 1, 2017 to September 30, 2017)
Net sales	433,539	432,000
Cost of sales	307,059	306,110
Gross profit	126,480	125,889
Selling, general and administrative expenses	119,856	118,911
Operating income	6,623	6,978
Non-operating income		
Interest income	42	86
Dividends income	524	762
Gain on adjustment of accounts payable	584	619
Gain on valuation of forward exchange contacts	—	346
Other	386	964
Total non-operating income	1,538	2,780
Non-operating expenses		
Interest expense	541	499
Loss on valuation of forward exchange contacts	1,135	—
Loss on provision for redemption of gift certificates	473	460
Other	890	405
Total non-operating expenses	3,040	1,365
Recurring income	5,121	8,393
Extraordinary income		
Gain on sales of property, plant and others	4,291	1,683
Gain on revision of retirement benefit plan	—	1,445
Reversal of provision for loss on store closing	218	—
Total extraordinary income	4,510	3,128
Extraordinary loss		
Loss on closing of stores and others	1,992	873
Loss on disposal of property, plant, equipment and intangibles	536	566
Impairment losses	1,114	108
Total extraordinary loss	3,643	1,547
Income before income taxes	5,987	9,974
Income taxes - current	1,917	2,774
Income taxes - deferred	(2,482)	1,460
Total income taxes	(564)	4,234
Income before minority interests	6,552	5,739
Profit attributable to non-controlling interests	0	0
Profit attributable to owners of parent	6,552	5,739

(3) Consolidated Cash Flow Statements

(Millions of yen)

	2Q of FY2017 (From April 1, 2016 to September 30, 2016)	2Q of FY2018 (From April 1, 2017 to September 30, 2017)
Cash flows from operating activities		
Income before income taxes	5,987	9,974
Depreciation and amortisation	7,951	7,827
Impairment losses	1,114	108
Loss on closing of stores and others	1,746	655
Amortisation of goodwill	306	285
Gain on revision of retirement benefit plan	—	(1,445)
Increase(decrease) in allowance for doubtful receivables	(582)	0
Increase(decrease) in provision for bonuses to employees	(92)	(2)
Increase(decrease) in provision for bonuses to directors	(33)	(70)
Increase(decrease) in provision for net defined benefit liability	(160)	893
Increase(decrease) in provision for retirement benefits to directors	17	(38)
Increase(decrease) in provision for redemption of gift certificates	64	39
Increase(decrease) in provision for loss on store closing	(66)	(255)
Increase(decrease) in provision for point card certificates	301	297
Interest and dividend income	(567)	(849)
Interest expense	541	499
Equity in losses(earnings) of affiliates	110	(23)
Loss(gain) on sales of property, plant, equipment and intangibles	(4,291)	(1,683)
Loss on retirement of non-current assets	254	321
Valuation loss (gain) on forward exchange contracts	1,135	(346)
Decrease(increase) in notes and accounts receivable	5,233	2,369
Decrease(increase) in inventories	(1,073)	1,473
Increase(decrease) in notes and accounts payable	(6,665)	(3,686)
Increase(decrease) in consumption tax payable	(271)	(2,744)
Increase (decrease) in advances received	3,948	3,085
Other	(327)	(1,013)
Sub total	<u>14,581</u>	<u>15,674</u>
Interest and dividends received	534	811
Interest expense paid	(537)	(490)
Income taxes paid	<u>(6,035)</u>	<u>(3,935)</u>
Net cash provided by operating activities	<u>8,543</u>	<u>12,060</u>

	2Q of FY2017 (From April 1, 2016 to September 30, 2016)	2Q of FY2018 (From April 1, 2017 to September 30, 2017)
Cash flows from investing activities		
Net decrease(increase) in time deposits	10	—
Purchases of property, plant and equipment	(18,993)	(9,483)
Proceeds from sales of property, plant and equipment	5,699	2,677
Purchases of intangibles	(1,787)	(2,456)
Proceeds from sales of intangibles	0	1,500
Payment for exercise of asset retirement obligations	(253)	(758)
Purchases of investment securities	(4)	(34)
Proceeds from sales of investment securities	134	—
Payments of long-term loans receivable	—	(119)
Proceeds from collection of long-term loans receivable	121	114
Payments for guarantee deposits	(328)	(162)
Proceeds from collection of guarantee deposits	1,447	909
Net cash provided by (used in) investing activities	<u>(13,953)</u>	<u>(7,813)</u>
Cash flows from financing activities		
Increase(decrease) in short-term debt	4,000	(2,000)
Proceeds from long-term debt	26,500	150
Repayments of long-term debt	(2,991)	(4,876)
Payments for redemption of bonds	(50)	(50)
Proceeds from sale of treasury stock	0	0
Additions to treasury stock	(1)	(3)
Dividends paid	(2,159)	(2,469)
Repayments of lease obligations	(404)	(426)
Net cash provided by (used in) financing activities	<u>24,893</u>	<u>(9,675)</u>
Foreign exchange differences of cash and cash equivalents	<u>(192)</u>	<u>230</u>
Net increase(decrease) in cash and cash equivalents	<u>19,290</u>	<u>(5,198)</u>
Cash and cash equivalents at beginning of year	<u>48,492</u>	<u>83,462</u>
Cash and cash equivalents	<u>67,783</u>	<u>78,263</u>